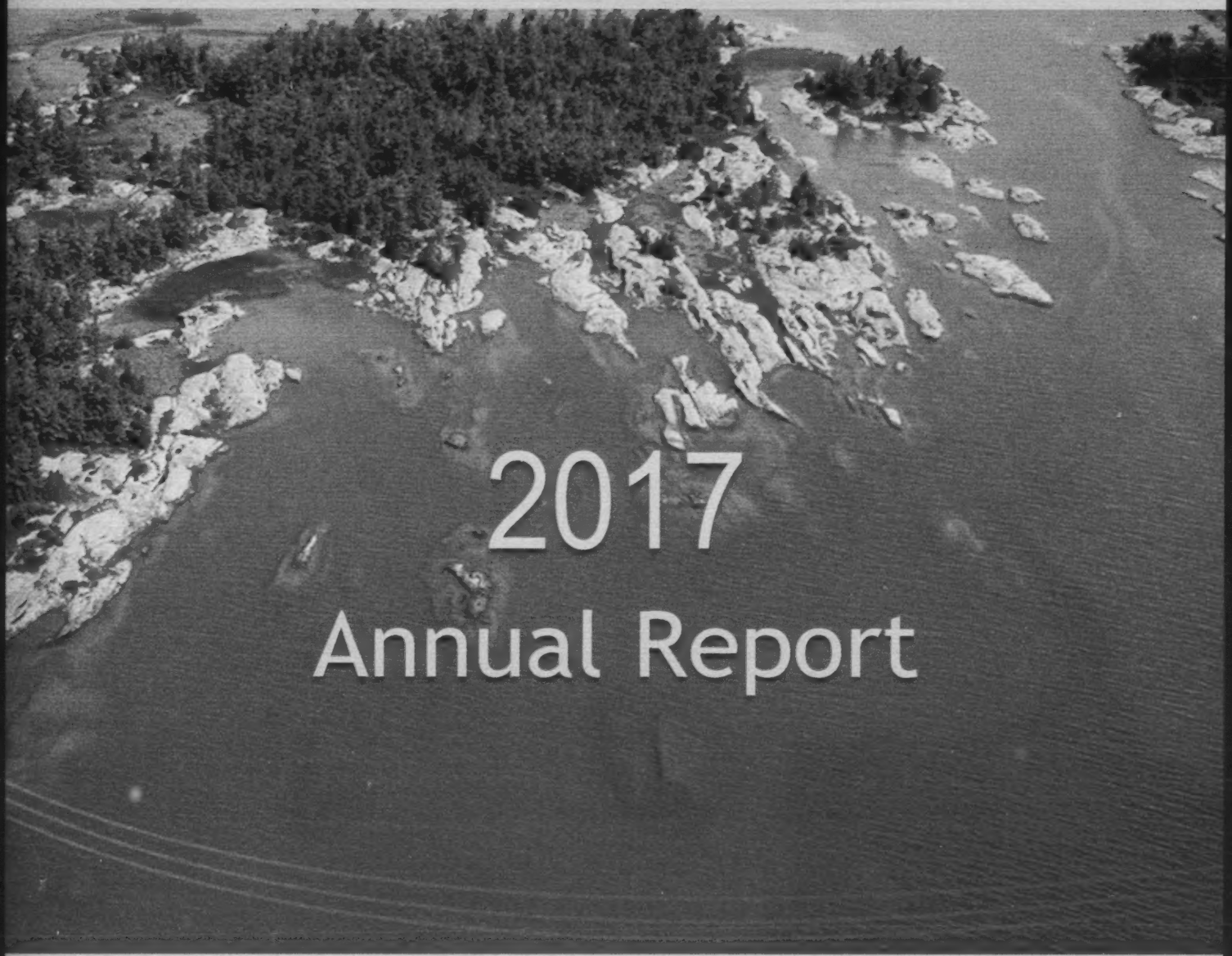
Ontario



# 2017 Annual Report

## ONTARIO FINANCING AUTHORITY

ONTARIO FINANCING AUTHORITY

**www.ofina.on.ca**

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- **OFA Bulletins**
- **Bond Issues / Borrowing Program Details**
- **IR Presentations**
- **Notice of Webcasts and Other events**

## Mandate

The Ontario Financing Authority (the "OFA") was established as an agency of the Crown, on November 15, 1993, by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario (the Province);
- manages the Provincial debt;
- provides centralized financial services for the Province including banking and cash management;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies to borrow and invest money;
- acts at the direction of the Province in lending to certain public bodies;
- invests on behalf of some public bodies;
- with Ontario Power Generation Inc. (OPG), manages the investment activities of OPG's Used Fuel Segregated Fund and Decommissioning Segregated Fund; and
- carries out the day-to-day operations of Ontario Electricity Financial Corporation (OEFC) and provides a broad range of financial services to Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

In addition, the OFA's objects include:

- providing such other financial services as are considered advantageous to the Province or any public body; and
- any additional objects as directed by the Lieutenant Governor in Council.

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## Statement from the Chair and the Chief Executive Officer

The OFA successfully completed its annual borrowing program in 2016–17 raising $27.0 billion on behalf of the Province and OEFC. Performance targets for Canadian-dollar and foreign borrowing were met or exceeded. Based on the *2017 Budget* projection of the Province's interest on debt expense, a savings of $506 million was generated when compared to the forecast in the *2016 Budget*. These savings continue a trend that has been in place from 2010 onwards and is due to a combination of lower than forecast deficits and interest rates along with efficient and effective debt management by the OFA. The OFA also generated additional savings of $29.4 million from money market activities relative to the performance benchmark.

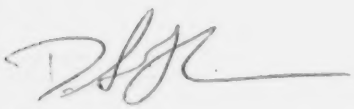
During the 2016–17 fiscal year, the OFA continued the review of business cases for borrowing requests from public bodies, such as colleges, school boards and crown corporations, resulting in loans to public bodies totalling $479.6 million. The OFA continued to support government initiatives, including the secondary offering of Hydro One shares resulting in nearly $2 billion in gross proceeds in 2016–17. Net revenue gains from the offering have been credited to the Trillium Trust to help support the Moving Ontario Forward initiative, to build transit, transportation and other priority infrastructure across the province. The OFA also provided financial advice and implementation support on government initiatives related to the Province's assets, the electricity sector, a loan guarantee program to facilitate Aboriginal participation in energy infrastructure projects, and analysis and advice with respect to a number of Infrastructure Ontario projects. The OFA will also continue to engage in public-sector financing initiatives and provide advice and support on financial aspects of government assets and electricity sector developments.

After concluding a successful pilot, the OFA worked with the Ministry of Community and Social Services and rolled out a prepaid card product across the Province to all unbanked recipients replacing social benefits payments previously made by cheque providing both cost efficiencies, and improved services to Ontarians.

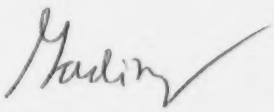
In 2017–18, the OFA will continue to provide cost-effective borrowing, debt management and other financial services for the Ontario government. To meet the Province's borrowing requirements, staff will continue to be flexible, monitoring Canadian-dollar and international markets, issuing bonds in different terms and currencies and responding to investor preferences. The OFA plans to continue to issue green bonds in the Canadian-dollar market, building on the success of the last three fiscal years.

We are proud of the OFA's diversity and remain committed to an inclusive and respectful environment. The organization continues to promote gender balance (currently the Board of Directors is over 60 per cent female), staff training and development, cultural sensitivity, and accessibility best practices.

We would like to thank the OFA staff for their hard work and the Board of Directors for their advice and oversight during the 2016–17 fiscal year. We look forward to working with staff and the Board in 2017–18.



Scott Thompson
Chair



Gadi Mayman
Chief Executive Officer

Capital Markets Activities

Borrowing and Debt Management

Financial Reporting and Treasury Services

Financial Advice

# Management's Discussion and Analysis

This section details management's discussion and analysis of the results achieved by the OFA for the Province in 2016–17 and its objectives for 2017–18.

## Capital Markets Activities

### *Borrowing Program*

Long-term borrowing for 2016–17 totalled $27.0 billion, including $3.2 billion in preborrowing for 2017–18, and took advantage of the continuing low interest rate environment and strong demand for Ontario bonds. The weighted-average term to maturity of long-term Provincial debt issued has been extended significantly from 8.1 years in 2009–10 to 13.9 years in 2016–17. This continuation of the extension of the term to maturity allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's Interest on Debt (IOD) costs. This strategy along with lower than forecast deficits and interest rates plus efficient and effective debt management by the OFA, has allowed the Province to project in its 2017 Annual Budget, $506 million in interest on debt savings for the 2016–17 fiscal year.

Strong global investor demand for Canadian-dollar assets, the liquidity of Ontario benchmark bonds and continuing confidence in the Province allowed Ontario to borrow 74 per cent in the Canadian-dollar market in 2016–17. While this percentage was lower than the 81 per cent of 2015–16's borrowing completed in Canadian dollars, it remains roughly in line with the target of at least 75 per cent.

### *Investments*

The OFA manages the Province's liquid reserve portfolio to optimize investment returns and to ensure sufficient funds are available to meet cash requirements. The average level of unrestricted liquid reserves in 2016–17 was $20.9 billion. In the normal course of business, the Province may pledge or receive collateral for derivative transactions and repurchase agreements. Unrestricted liquid reserves are a more prudent measure of total liquid reserves as pledged collateral is netted out of the total liquid reserves calculation.

The OFA also invests on behalf of certain public bodies to help increase their returns by streamlining investment processes and reducing investment costs. In 2016–17, the OFA provided investment services to a number of agencies, boards, commissions and other public bodies, including Infrastructure Ontario, the Pension Benefits Guarantee Fund, Ontario Trillium Foundation, Ontario Capital Growth Corporation and the Deposit Insurance Corporation of Ontario. Total funds managed were $1.9 billion.

With OPG, the OFA continued to manage the investment activities of OPG's Used Fuel Segregated Fund and the Decommissioning Segregated Fund established under the Ontario Nuclear Funds Agreement (ONFA). As at March 31, 2017, the combined market value of the funds was $19.9 billion compared to $17.9 billion at March 31, 2016 and $4.9 billion when the funds were formally established in 2003.

There are currently 28 external investment managers retained to invest ONFA funds in bonds, equities, and real assets. For the 12 months ending March 31, 2017, the funds' rate of return was 11.39 per cent, ahead of the market benchmark of 10.89 per cent. Since inception, the funds have returned 7.66 per cent

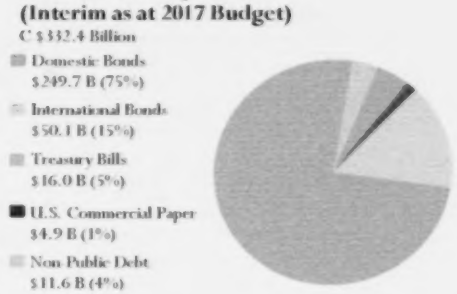
annualized, outperforming the long-term target annualized rate of return of 5.14 per cent. This target is a real rate of return of 3.25 per cent annually, calculated by adding 3.25 to the rate of change in the Ontario Consumer Price Index.

## Borrowing and Debt Management

The OFA manages the debt of the Province and OEFC.

Total debt, which represents all borrowing without offsetting financial assets, was $332.4 billion, interim as at March 31, 2017, compared to $327.4 billion as at March 31, 2016, and a forecast of $331.1 billion in the *2016 Budget*.

**Total Debt Composition (Interim as at 2017 Budget)**




Ontario's net debt is the difference between total liabilities and total financial assets. Ontario's net debt is projected to be $301.9 billion as of March 31, 2017 (March 31, 2016, $296.1 billion). This projection for March 31, 2017 is $6.4 billion below the forecast of $308.3 billion in the *2016 Budget*. It includes the broader public sector's (BPS) net debt of $13.3 billion (March 31, 2016, $13.9 billion).

Prudent risk management policies and practices mitigate the financial risks inherent in managing large debt and liquid reserve portfolios. A variety of financial instruments, such as swaps and forward contracts, are used to manage exposures to fluctuations in interest rates and foreign currency exchange rates. The OFA uses derivatives for hedging purposes to manage its foreign exchange and interest rate risks. The OFA's derivatives policy does not permit the creation of leverage using derivatives. The Province's financial risks are monitored on a continuous basis, and these risk exposures are marked-to-market daily and audited annually.

Risk management policies are reviewed annually and amendments are approved by the Board.

***Performance***

The OFA monitors and measures the performance of the borrowing and money market programs. The performance of long-term fixed rate borrowing for 2016–17 is measured by comparing the all-in borrowing cost against the statistical distribution of benchmark interest rates observed during the year, with the objective being to attain a low percentile rank. Regular long-term fixed borrowing achieved a percentile rank of 51, within the target range of 45-55 percentile; strategic foreign borrowing, which constituted 26 per cent of total borrowings in 2016–17 achieved a percentile rank of 38, outperforming the target range of 50-75 percentile.

The performance of liquid reserve investments (money market program) is measured relative to the returns of a custom benchmark with a term of approximately 61 days. The target is $\pm 2$ basis points relative to the benchmark. The program returned 14 basis points more than the benchmark. Actual money market performance was $29.4 million better than the benchmark for 2016–17.

***Market Risk***

Market risk is the risk of loss due to changes in interest and foreign exchange rates.

The OFA aims for a balanced debt maturity profile for the Province to mitigate the interest rate risk inherent in refinancing maturing debt and the floating-rate debt. The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign-exchange exposure of 5 per cent of debt issued for Provincial purposes.

The interim percentage of interest rate resetting exposure (net of liquid reserves) was 11 per cent of debt as at March 31, 2017. The interim foreign exchange exposure was 0.2 per cent of debt as at March 31, 2017.

All exposures were well within the Province's approved policy limits during 2016–17.

***Credit Risk***

Credit risk is the risk of loss due to default of bond issuers or counterparties of derivatives or other financial transactions. The lowest acceptable credit rating of counterparties for Ontario is A–. However, Ontario typically enters into swap transactions with new counterparties rated AA– or higher. Ontario's hedging transactions related to international borrowing result in credit risk exposure to its derivative counterparties. In order to manage and mitigate credit risk associated with derivative transactions, the Province has negotiated swap collateral agreements known as Credit Support Annexes (CSAs) with many of its derivatives counterparties. A CSA is a bilateral agreement between two parties that provides the terms and conditions for posting collateral in order to offset the credit exposure related to derivative transactions.

The Province's interim net credit risk exposure associated with the derivative portfolio as at March 31, 2017 was $143 million, decreasing from $810 million as at March 31, 2016, largely due to a decrease in exposure to counterparties without a CSA. Net credit risk exposure represents the loss that the Province would incur if every counterparty to which the Province had credit risk exposure were to default at the same time, less the mitigating impact of netting provisions as prescribed in contractual master agreements.

As at March 31, 2017, over 99 per cent of Ontario's credit exposure was to counterparties rated AA– or better, essentially unchanged from 98 per cent as at March 31, 2016.

***Liquidity Risk***

Liquidity risk is the risk that liquid reserves will not be sufficient to meet the Province's cash requirements. This risk is controlled through the management of operational cash flows, liquid reserve levels and the short-term borrowing program.

The Province's Treasury bill and U.S. Commercial Paper programs have authorized limits of $33.0 billion and $15.0 billion, respectively. As at March 31, 2017, the outstanding borrowing under the Province's Treasury bill and U.S. Commercial Paper programs stood at $16.4 billion and $5.4 billion, respectively.

***Operational Risk***

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. The OFA manages operational risks through divisional procedures and contingency plans as well as appropriate staffing and training, all of which are reviewed on an ongoing basis. The OFA's Business Continuity Plan ensures critical operations are completed in a timely manner in the event of an unforeseen business disruption. All BCP infrastructure and services were successfully tested in two corporate exercises held throughout the year.

The reliability of information technology (IT) and computing systems is crucial to ensure the OFA carries out its mandate efficiently and effectively. The Strategic Corporate Services Division (SCSD) supports the OFA by ensuring the efficient and effective management of business critical services including technology & communication systems, procurement, facilities, human resources, corporate business continuity and all related policies.

All systems and services were supplied within defined Service Level Agreements, with no major failures or breaches realized in 2016–17. With upticks in data creation and consumption, and rising global cyber security threats, continued resource investment contributes to the proactive maintenance and management of systems, and will continue to be handled with the highest diligence in defense of the systems that support the OFA.

***Market Developments - The Canadian Depository for Securities (CDS) Fees***

On December 22, 2016, CDS advised issuers that it had received regulatory approval to expand the scope of its fees, a process which CDS initiated in November 2014 in the face of significant concerns from various market participants, including several municipal and provincial issuers across Canada. In conjunction with other government issuers, the OFA undertook considerable advocacy efforts with CDS and its regulators to clarify the scope and applicability of these new fees which ultimately resulted in CDS withdrawing its initial proposal and introducing two new fee proposals. CDS began charging issuers on March 1, 2017 in connection with the two new fee proposals, however, some of the initial fees proposed in November 2014 were reduced and all existing debt was 'grand-fathered' meaning that the fees would only apply to new domestic securities issued after March 1, 2017.

***Credit Rating Agency Relations***

The Province requires ratings from recognized credit rating agencies to issue debt in the capital markets. The OFA ensures credit rating agencies understand government policies and budget direction as well as economic and fiscal performance, and properly reflect these in their reports and decisions. Through the OFA, the Province maintains a one-window contact with the rating agencies to ensure information provided to them is consistent and coordinated.

***Capital Markets and Borrowing and Debt Management Objectives for 2017–18***

The OFA will continue to diversify the Province's Canadian-dollar borrowing program using a combination of syndicated issues, bond auctions, floating-rate notes, medium-term notes and Ontario Savings Bonds. The OFA also plans on issuing green bonds in the Canadian-dollar market. These bonds are expected to be issued

at the same yield as Ontario's conventional bonds of comparable term and size. The Province forecast to borrow 75 per cent in the Canadian-dollar market in 2017–18. This is in line with the historical average of issuing approximately three-quarters in that market, but represents a considerable decline in the reliance on foreign markets during the global financial crisis beginning in 2008. For example, in 2009–10, more than 50 per cent of the Province's issuance was in international markets.

Ontario will continue to be flexible, monitoring the Canadian-dollar and international markets, issuing bonds in different terms and currencies, and responding to investor preferences. Investor relations will remain a priority, with road shows planned for Canada, Europe and the United States.

The Province will continue to hedge foreign exchange and interest rate risks when borrowing in international markets. This hedging process may become more complex due to regulatory reforms in the derivatives markets under the U.S. *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank), the European Market Infrastructure Regulation (EMIR), and Bank for International Settlements *Basel III* regulations. These initiatives may increase the cost of hedging. Hedging may also become more expensive if proposals such as financial transaction taxes or mark-to-market derivatives taxes are legislated and implemented in Europe or the United States.

Cost-effective and prudent debt management strategies will continue to be key objectives in 2017–18. The OFA will comply with risk management policies and portfolio program limits approved by the Boards of Directors of the OFA and OEFC. Risk management policies will be reviewed and revised as required in response to an evolving regulatory and capital markets environment. On behalf of the Province, the OFA will continue negotiating CSAs with other major counterparties.

The OFA will also manage the Province's liquid reserves conservatively. With OPG, the OFA will continue to administer ONFA investments consistent with the objectives of ONFA, so the Province's contingent liabilities under ONFA are prudently managed. As well, the OFA will continue to invest on behalf of certain public bodies.

## Financial Reporting and Treasury Services

After concluding a successful pilot, the OFA continued to work with the Ministry of Community and Social Services and rolled out a reloadable prepaid card across the Province to unbanked individuals receiving social benefits payments by cheque. The replacement of cheques by the prepaid card allows for both cost efficiencies, and improved services to Ontarians.

Based on an in-depth risk and efficiency analysis by the OFA, the Province determined to no longer accept American Express cards as a payment mechanism. The decision generated savings through the elimination of a parallel infrastructure as well as reduced risk by streamlining Payment Card Industry data security requirements.

The OFA continued to provide agency financial statements, as well as reporting of provincial debt, derivatives and investments. As in past years, the OFA's 2015–16 Financial Statements received an unqualified opinion from the Office of the Auditor General. As part of the audit of the Province's Public Accounts, the Office of the Auditor General audits the OFA's financial reporting of the Province's debt and

interest on debt. The 2016–17 Public Accounts audit is currently on-going, the 2015–16 audit, in keeping with the past years, did not identify any material issues.

***Financial Reporting and Treasury Services Objectives for 2017–18***

Compliance with Payment Card Industry (PCI) Data Security Standards is now in its sustainment phase, however, the OFA will continue to work with OPS stakeholders and the Province's credit/debit card acquirer to ensure that the mandatory external compliance reviews continue to be positive thus mitigating the risk of data breaches.

The OFA will continue to work with the Ministry of Community and Social Services to increase the percentage of unbanked benefits recipients who receive their payments via the prepaid card product instead of cheques.

The OFA continues to work with the Ontario Pensions Board (OPB), Ministries of Finance, Government and Consumer Services and the Treasury Board Secretariat on advancing cost effective options including required legislative changes for managing the assets of various pension plans currently within the Consolidated Revenue Fund. The initiative has the potential to unlock interest on debt savings.

The OFA will continue to collaborate with other provinces to work with the Public Sector Accounting Board (PSAB) to address collective concerns with regard to the PSAB Financial Instruments standard. Ontario has assumed a leadership role in this process and the OFA on behalf of Ontario and with the support of all the major provinces is moving forward with presenting its concerns on this standard to PSAB.

The OFA will continue to maintain a leading edge Business Continuity Plan to ensure that timely payments are made to the BPS (including hospitals, municipalities and school boards) to manage the Province's financial risks in real time, and to ensure that adequate funds are available to settle all of the Province's multibillion dollar financial transactions even in the event of unforeseen disruptions.

## Financial Advice

The OFA was active in providing financial advice and implementation assistance to ministries, Crown agencies and other public bodies on corporate and electricity finance policies and initiatives.

In the *2012 Budget*, the Province announced that it was continuing to review ways to provide more efficient and effective public service delivery models and opportunities to optimize the returns on its major government business enterprises. The OFA assisted, and will continue to assist, the Province in this process by providing financial analysis and advice, and implementation support where applicable, with respect to potential opportunities for partnerships with the private sector and with respect to opportunities to optimize the returns on its government business enterprises and other assets.

***Projects – Advisory Activities***

The OFA continued to provide analysis and advice to the Working Committee on Hospital Working Fund Deficits on the development and implementation of appropriate accountability mechanisms in support of remedies for hospital working capital deficits.

The OFA continued to advise the Ministry of Research and Innovation on venture capital investments made by the Ontario Capital Growth Corporation through the Ontario Venture Capital Fund, the new Northleaf Venture Catalyst Fund, and the Ontario Emerging Technology Fund. The CEO of the OFA is a director on the board of the Ontario Capital Growth Corporation.

The OFA continued to provide analysis and advice in respect of a number of Infrastructure Ontario projects. The CEO of the OFA is a director on the board of Infrastructure Ontario.

The OFA reviewed and provided advice on proposals received under the government's Jobs and Prosperity Fund (JPF) program, as well as on the due diligence process relating to the program. The CEO of the OFA is a member of the JPF ADMs' committee.

The OFA continued to provide analysis, advice and implementation in respect of the financing underlying the electricity price mitigation measures introduced by the Ministry of Energy under the Fair Hydro Plan.

***Projects – Other Financial Services***

The OFA's framework for financing public bodies mandates the OFA to provide long-term financing to crown agencies, school boards, colleges, hospitals and specified Provincial corporations, boards and commissions. Under this framework, the OFA provided new loans to a number of public bodies, including Ontario colleges, school boards and crown corporations totalling $479.6 million in 2016–17.

The OFA provided advice to the Ministry of Natural Resources and Forestry on work-out strategies for a forestry sector company that had received financial assistance under the government's forestry sector support programs.

The OFA provided financial analysis and support on financial transactions (e.g., MaRS take-out financing) and the establishment of the Green ON Fund.

The OFA also provided financial analysis and advice on initiatives and options to optimize the value of government assets. This included providing analysis, advice and implementation support for the secondary offering of shares in Hydro One, which closed in April 2016, supporting the completion of the sale of Hydro One Brampton to Alectra Utilities, a newly merged entity consisting of three former local distribution companies (Enersource, Horizon Utilities and PowerStream), and working to unlock the value of designated Provincial real estate assets. The OFA also provided analysis, advice and implementation support with respect to the associated financial impacts on OEFC from the broadening of ownership in Hydro One, provided advice as part of the Province's agreement-in-principle to sell up to 2.5 per cent of the total current outstanding Hydro One common shares to First Nations in Ontario, and provided analysis and implementation support related to the Trillium Trust. As of March 31, 2017 the Trillium Trust had been credited with a total of $5.3 billion, which is dedicated to support infrastructure projects under the Moving Ontario Forward plan.

The OFA, on behalf of the Province, has received a number of applications for the Province's Aboriginal Loan Guarantee Program, which are in various stages of completion and are under review by staff and a third party due diligence provider. As at March 31, 2017, eight loan guarantees totalling over $230 million have been approved under the program.

The OFA provided services to OEFC, including facilitating loan agreements between OEFC and OPG to provide financing for general corporate purposes and electricity supply projects. The OFA provided analysis and advice to support the continuation of credit facilities for the Independent Electricity System Operator (IESO).

The OFA assisted in the continued implementation of ONFA, including reviewing OPG's 2017 annual budget for eligible expenditures under ONFA for nuclear waste management and advising the Minister of Finance on the Province's approval of OPG's 2017 Reference Plan for nuclear decommissioning and waste management liability estimates.

The OFA also provided analysis and advice to the Minister of Finance and the government to support electricity policies and initiatives, focusing on potential fiscal and economic impacts on the Province and OEFC. This included providing ongoing support for eligible large northern industrial facilities beyond March 2017 and reviewing of the efficiency and effectiveness of Northern Industrial Electricity Rate (NIER) program.

***Financial Advice Objectives for 2017–18***

In 2017–18, the OFA will continue to provide financial advice and assistance to the Minister of Finance, ministries, Crown agencies and other public bodies on financial policies and initiatives.

Activities will include advising ministries and agencies on cost-effective financing policies and structures, comprehensive advice on structuring and implementing financial transactions and accurate determination of value-for-money benchmarks.

The OFA will continue to provide financial advice to the Ministry of the Environment and Climate Change in support of the ongoing auction and sale of carbon allowances and distribution of public proceeds to Ontario in the Province's new Cap and Trade program as well as assist in the development of financing programs for the Green ON Fund.

The OFA will provide financial advice on measures to support government initiatives and to facilitate cost-effective borrowing by public sector organizations. Particular attention will be given to public infrastructure financing initiatives and the OFA will continue to advise on municipal sector finances.

The OFA will continue to provide financial advice and implementation support on government asset optimization options and initiatives, including the broadening of ownership of Hydro One shares. The OFA is also providing advice on optimizing the value of certain of the Province's real estate assets, including the Seaton and Lakeview lands. The OFA will continue to provide analysis, advice and implementation support on the Trillium Trust, including dedicating amounts to the Trillium Trust and plans for drawing down funds.

Financial analysis and advice will be provided to the Minister of Finance on the electricity sector and the impact of related policy initiatives on the Province's finances (including those of OEFC) and the economy. In addition, ongoing support will be provided for: working with the Ministry of Energy, Ministry of Finance, OPG and the Independent Electricity System operator on financing underlying the Fair Hydro Plan; ONFA, including working with OPG and the Canadian Nuclear Safety Commission (CNSC) to satisfy OPG's

financial guarantee requirement to the CNSC on decommissioning and nuclear waste obligations; managing the debt and other liabilities of OEFC; the NIER program and the IEI.

As required, the OFA will advise on electricity supply and demand initiatives, including facilitating potential financing to OPG for supply initiatives.

The OFA will continue to provide analysis and advice to the Minister of Finance on applications to and loan guarantees under the Aboriginal Loan Guarantee Program.

The OFA will continue to provide analysis and advice as required for any current or proposed business support programs. In addition, the OFA will continue to provide analysis and advice where requested on transformation opportunities for ministries, Crown agencies and other public bodies.

## Summary of Financial Results

The Ontario Financing Authority (OFA) manages the Province's debt, interest on debt and investment of liquid reserves, and recovers the cost of these services from the Province. The OFA also provides financial services to Crown agencies and other public bodies and these costs are recovered on a fee-for-service basis.

The outstanding balance of the loans to public bodies at March 31, 2017 was $6,003.5 million, a net increase of $31.1 million from $5,972.4 million in March 2016 (Note 5). The increase was largely due to additional loans to the Colleges of Applied Arts and Technologies of $118.1 million, the Independent Electricity System Operator of $95.0 million, School Boards of $67.1 million, the Ontario Lottery and Gaming Corporation of $8.2 million and the Ottawa Convention Centre of $2.1 million. These increases are partially offset by repayments from the Centennial Centre of Science and Technology of $0.5 million, the Colleges of Applied Art and Technologies of $18.9 million, the Corporation of the City of Windsor of $1.7 million, the Independent Electricity System Operator of $13.8 million, the Niagara Parks Commission of $0.3 million, the Ontario Northland Transportation Commission of $0.4 million, Royal Ontario Museum of $4.1 million, School Boards of $206.0 million, University of Ontario Institute of Technology of $5.1 million and the Ontario Lottery and Gaming Corporation of $8.6 million.

The OFA continued to provide investment management services to other public bodies for the aggregate amount of $1,904 million (2016 – $2,733 million) (Note 6).

The OFA recovered operating costs from agencies and related parties amounting to $4.8 million for the year ended March 31, 2017 (2016 – $4.8 million) (Note 6). The OFA's annual surplus for the year amounted to $3.7 million (2016 – $3.4 million) from the retention of the interest rate spread on loans to public bodies.

Prudent financial management on the part of the OFA ensured that actual expenditures continued to be below the budget resulting in cost recoveries from the Province that were $3.0 million lower than the budgeted amount. Interest revenue was $0.7 million greater than the budget contributing to an equal increase in the annual surplus.

# Financial Statements

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# Financial Statements

## Responsibility for Financial Reporting

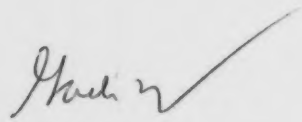
The accompanying Financial Statements of the OFA have been prepared in accordance with Canadian public sector accounting standards. The preparation of the Financial Statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The Financial Statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 16, 2017.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Risk Management Committee of the Board.

The Board, through the Audit and Risk Management Committee, is responsible for ensuring management fulfils its responsibilities for financial reporting and internal controls. The Audit and Risk Management Committee meets periodically with management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board.

The Financial Statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the Financial Statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of management:



Gadi Mayman
Chief Executive Officer

Ken Kandeepan
Chief Financial and Risk Officer

# Auditor's Report

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

*Independent Auditor's Report*

**To the Ontario Financing Authority**
**and to the Minister of Finance**

I have audited the accompanying financial statements of the Ontario Financing Authority, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, changes in net financial assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud error.

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Financing Authority as at March 31, 2017 and the results of its operations, its change in net financial assets and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

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Toronto, Ontario
June 16, 2017

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

## ONTARIO FINANCING AUTHORITY

### Statement of Financial Position

**As at March 31, 2017**

| *( in thousands of dollars )* | | **2017** | | *2016* |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | |
| Cash | $ | 21,664 | $ | *18,400* |
| Due from agencies & related parties (Note 6) (c) | | 3,555 | | *3,088* |
| Due from the Province of Ontario | | 1,743 | | *1,919* |
| | | 26,962 | | *23,407* |
| **LIABILITIES** | | | | |
| Accounts payable and accrued liabilities | | 1,743 | | *1,919* |
| Due to the Province of Ontario | | 1,422 | | *1,346* |
| Deferred revenue (Note 3) | | 1,504 | | *1,551* |
| | | 4,669 | | *4,816* |
| **Net financial assets** | | **22,293** | | ***18,591*** |
| **NON-FINANCIAL ASSETS** | | | | |
| Tangible capital assets (Note 2) | | 1,196 | | *1,201* |
| Prepaid expenses | | 308 | | *350* |
| | | 1,504 | | *1,551* |
| **Accumulated surplus** | $ | **23,797** | $ | ***20,142*** |

*See accompanying notes to financial statements.*

Approved on behalf of the Board of Directors:

Scott Thompson
Chair

Gadi Mayman
Chief Executive Officer

## ONTARIO FINANCING AUTHORITY

### Statement of Operations

**For the year ended March 31, 2017**

| *( in thousands of dollars )* | 2017 Budget | 2017 Actual | *2016 Actual* |
|---|---|---|---|
| **REVENUE** | | | |
| Cost recovery from the Province of Ontario (Note 4) | $ 21,326 | $ 18,280 | *$ 18,268* |
| Cost recovery from Agencies & related parties (Note 6) (c) | 4,861 | 4,841 | *4,753* |
| Amortization of deferred capital contributions (Note 3) | 881 | 831 | *782* |
| Interest revenue (Note 5) | 3,003 | 3,655 | *3,364* |
| | 30,071 | 27,607 | *27,167* |
| **EXPENSES** | | | |
| Salaries, wages and benefits | 21,250 | 19,257 | *19,098* |
| Administrative and general | 4,937 | 3,864 | *3,923* |
| Amortization of tangible capital assets (Note 3) | 881 | 831 | *782* |
| | 27,068 | 23,952 | *23,803* |
| **Annual surplus** | 3,003 | 3,655 | *3,364* |
| **Accumulated surplus at beginning of year** | 20,142 | 20,142 | *16,778* |
| **Accumulated surplus at end of year** | $ 23,145 | $ 23,797 | *$ 20,142* |

*See accompanying notes to financial statements.*

## ONTARIO FINANCING AUTHORITY

### Statement of Change in Net Financial Assets

**For the year ended March 31, 2017**

| *( in thousands of dollars )* | **2017 Budget** | **2017 Actual** | ***2016 Actual*** |
|---|---|---|---|
| **Annual Surplus** | $ 3,003 | $ 3,655 | *$ 3,364* |
| Acquisition of tangible capital assets (Note 3) | (865) | (826) | *(722)* |
| Amortization of tangible capital assets (Note 3) | 881 | 831 | *782* |
| Prepaid expenses | – | 42 | *22* |
| **Change in net financial assets** | 3,019 | 3,702 | *3,446* |
| **Net financial assets at beginning of year** | 18,591 | 18,591 | *15,145* |
| **Net assets at end of year** | $ 21,610 | $ 22,293 | *$ 18,591* |

*See accompanying notes to financial statements.*

## ONTARIO FINANCING AUTHORITY

### Statement of Cash Flow

**For the year ended March 31, 2017**

| *( in thousands of dollars )* | | **2017** | | ***2016*** |
|---|---|---|---|---|
| **Operating transactions** | | | | |
| Annual Surplus | $ | 3,655 | $ | *3,364* |
| Amortization of Tangible Capital Assets | | 831 | | *782* |
| Increase in due from agencies & related parties | | (467) | | *(247)* |
| Decrease/ (Increase) in due from the Province | | 176 | | *(122)* |
| (Decrease)/ Increase in Accounts Payable | | (176) | | *122* |
| Decrease in prepaid expenses | | 42 | | *22* |
| Increase in recoveries payable to the Province | | 76 | | *5* |
| Decrease in deferred revenue | | (47) | | *(82)* |
| **Cash provided by operating transactions** | | 4,090 | | *3,844* |
| **Capital transactions** | | | | |
| Cash used to acquire tangible capital assets | | (826) | | *(722)* |
| **Cash applied to capital transactions** | | (826) | | *(722)* |
| **Increase in cash** | | 3,264 | | *3,122* |
| **Cash at beginning of year** | | 18,400 | | *15,278* |
| **Cash at end of year** | $ | **21,664** | $ | ***18,400*** |

*See accompanying notes to financial statements.*

# ONTARIO FINANCING AUTHORITY

## Notes to Financial Statements

**For the year ended March 31, 2017**

### BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency, of the Crown, on November 15, 1993, by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario ("the Province");
- manages the Provincial debt;
- provides centralized financial services for the Province including banking and cash management;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies to borrow and invest money;
- acts at the direction of the Province in lending to certain public bodies;
- invests on behalf of some public bodies;
- with Ontario Power Generation Inc. (OPG), manages the investment activities of OPG's Used Fuel Segregated Fund and Decommissioning Segregated Fund; and
- carries out the day-to-day operations of Ontario Electricity Financial Corporation (OEFC) and provides a broad range of financial services to Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

In addition, the OFA's objects include:

- providing such other financial services as are considered advantageous to the Province or any public body; and
- any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

### 1. SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of Accounting:** These financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards for provincial reporting entities established by the Canadian Public Sector Accounting Board.

**(b) Tangible capital assets:** Tangible capital assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below.

| | |
|---|---|
| Furniture and equipment | 5 years |
| Computer hardware | 3 years |
| Leasehold improvements | Term of lease |

Funding received from the Province for the acquisition of tangible capital assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the tangible capital assets.

**(c) Measurement uncertainty:** The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Items requiring the use of significant estimates include: useful life of tangible capital assets, accruals and the accrued benefit obligation. Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

**(d) Accounts Payable and Accrued Liabilities**: Accounts payable relate to normal business transactions with third-party vendors and are subject to standard commercial terms. Accrued liabilities relate to accruals for salaries and benefits.

**(e) Revenue and Expenses**: OFA is funded from the Consolidated Revenue Fund (CRF) as part of Treasury Program. OFA can charge fees subject to statutory and regulatory authority and it earns revenues from public bodies outside of the CRF; the OFA retains revenues earned from the interest rate spread on its loans to public bodies.

**(f) Financial Instruments**: The OFA's financial assets and liabilities are accounted for as follows:

- Cash is subject to an insignificant risk of change in value so carrying value approximates fair value; and

- Accounts receivable, Due from Agencies & related parties, Due from the Province of Ontario, accounts payable, Due to the Province of Ontario and Deferred Revenue are recorded at cost.

The OFA does not use derivative financial instruments on its own behalf.

## 2. TANGIBLE CAPITAL ASSETS

Year ended March 31, 2017

| *(in thousands of dollars)* | Computer Hardware | Leasehold Improvements | Furniture and Equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Opening balance, April 1, 2016 | $13,650 | $1,833 | $1,093 | $16,576 |
| Additions | 768 | 25 | 33 | 826 |
| Disposals | (392) | – | – | (392) |
| Closing balance, March 31, 2017 | 14,026 | 1,858 | 1,126 | 17,010 |
| **Accumulated Depreciation** | | | | |
| Opening balance, April 1, 2016 | 12,702 | 1,608 | 1,065 | 15,375 |
| Amortization | 638 | 182 | 11 | 831 |
| Disposals | (392) | – | – | (392) |
| Closing balance, March 31, 2017 | 12,948 | 1,790 | 1,076 | 15,814 |
| **Net Book Value, March 31, 2017** | $1,078 | $68 | $50 | $1,196 |

Year ended March 31, 2016

| *(in thousands of dollars)* | Computer Hardware | Leasehold Improvements | Furniture and Equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Opening balance, April 1, 2015 | $13,072 | $1,833 | $1,068 | $15,973 |
| Additions | 697 | – | 25 | 722 |
| Disposals | (119) | – | – | (119) |
| Closing balance, March 31, 2016 | 13,650 | 1,833 | 1,093 | 16,576 |
| **Accumulated Depreciation** | | | | |
| Opening balance, April 1, 2015 | 12,227 | 1,428 | 1,057 | 14,712 |
| Amortization | 594 | 180 | 8 | 782 |
| Disposals | (119) | – | – | (119) |
| Closing balance, March 31, 2016 | 12,702 | 1,608 | 1,065 | 15,375 |
| **Net Book Value, March 31, 2016** | $948 | $225 | $28 | $1,201 |

## 3. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province for the acquisition of tangible capital assets as well as prepaid expenses to be allocated over the period the resources are consumed.

*(in thousands of dollars)*

| | Tangible Capital Assets | Prepaid Expenses | Total |
|---|---|---|---|
| **Balance, beginning of year** | $ 1,201 | $ 350 | $ 1,551 |
| **Additions** | 826 | 548 | 1,374 |
| **Amortization** | (831) | – | (831) |
| **Expensed in the current year** | – | (590) | (590) |
| **Balance, end of year** | $ 1,196 | $ 308 | $ 1,504 |

Amortization of $831,000 represents the offset to the contributions received for the purchase of tangible capital assets. The $590,000 expensed represents the amount allocated to the current year expenses from the prepaid expenses.

## 4. DEBT AND INVESTMENT MANAGEMENT FOR THE PROVINCE

The OFA manages debt on behalf of the Province amounting to $332.4 billion, as at March 31, 2017 (2016 Actual – $327.4 billion) as per the interim projection published in the 2017 Annual Budget. The OFA also manages investments amounting to $44.4 billion as at March 31, 2017 (2016 – $47.0 billion) including $19.9 billion (2016 – $18.6 billion) under the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the *Ontario Nuclear Funds Agreement (ONFA)*. The Province, OPG and certain OPG subsidiaries entered into the agreement in March 2002 to set aside funds necessary to dispose of nuclear waste and used fuel and to decommission nuclear power stations. The agreement came into force on July 24, 2003.

Cost recovery from the Province for all debt management and investment activities for the year ended March 31, 2017 was $18.3 million (2016 – $18.3 million).

## 5. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated financial statements, these transactions are not reflected in these financial statements.

Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating $16.9 billion expiring from 2036 to 2044. Principal repayments received from public bodies by the

OFA are forwarded to the Province. The interest rates charged to public bodies is generally slightly higher than the rate charged on the advances from the Province to fund the loans ("the spread").

The OFA will generally retain a portion of the spread in order to recover the administrative costs of managing these loans. The spread retained by the OFA includes a cost recovery component and, where applicable, a proxy commercial interest rate spread. The inclusion of the proxy commercial spread results in an interest rate equivalent to what would be charged on the loan by a commercial lender and reflects the relative risk associated with the loan. During the year ended March 31, 2017, $3.7 million in interest rate spread revenue was recognized (2016 – $3.4 million) of which $2.1 million in receivable at year end (2016 – $1.7 million).

As at March 31, 2017, the principal amounts receivable by the OFA on behalf of the Province represent long term and short term loans. Interest accrued on the outstanding loans listed below, amounted to $93.9 million (2016 – $93.6 million), of which $92.7 million (2016 – $92.6 million) will be flowed to the Province.

These are related party transactions, with the exception of those with the Corporation of the City of Windsor and the University of Ontario Institute of Technology.

*(in thousands of dollars)*

| | **March 31, 2017** | ***March 31, 2016*** |
|---|---|---|
| Centennial Centre of Science and Technology | $ – | *$ 500* |
| Colleges of Applied Art and Technologies | 320,653 | *221,450* |
| Corporation of the City of Windsor | 8,171 | *9,916* |
| Independent Electricity System Operator | 81,209 | |
| Niagara Parks Commission | 4,553 | *4,876* |
| Ontario Lottery and Gaming Corporation | 33,769 | *34,085* |
| Ottawa Convention Centre Corporation | 48,016 | *45,872* |
| Ontario Northland Transportation Commission | 2,564 | *2,950* |
| Royal Ontario Museum | 26,000 | *30,145* |
| School Boards | 5,473,075 | *5,611,958* |
| University of Ontario Institute of Technology | 5,501 | *10,611* |
| **Total** | **$ 6,003,511** | ***$ 5,972,364*** |

**Loans to Public Bodies by the Province:**

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act, 1990*. The loan made to fund the construction of the Agents of Change project matured in March 2017 and has been repaid in full.

Colleges of Applied Art and Technologies have been loaned $320.7 million (2016 – $221.5 million) for various campus projects including new and expanded student residences, computer equipment, parking facilities, and an energy saving capital project. These loans bear interest ranging from 0.90 per cent to 5.75 per cent and mature from 2018 to 2042.

The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act*. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility consisting of a provincial division courthouse and city police headquarters. This is a 20 year loan bearing interest at 6.41 per cent and maturing in March 2021. The outstanding balance is $8.2 million (2016 – $9.9 million).

The Independent Electricity System Operator (IESO) has been provided a maximum $975 million credit facility to primarily fund the Regulated Price Plan variance account. This credit facility has been extended until November 30, 2019. IESO has drawn $81.2 million from this facility as of March 31, 2017 bearing an interest rate of 0.83 per cent and maturing on April 24, 2017.

The Niagara Parks Commission, a Crown agency of the Province, operating under the *Niagara Parks Act, 1990*, has been provided a loan of $4.6 million (2016 – $4.9 million) to finance additional capital costs incurred for the redevelopment of phase I of Table Rock House in Queen Victoria Park, Niagara Falls. This loan bears interest at 5.07 per cent and matures in April 2027.

The Ontario Lottery and Gaming Corporation (OLG) is a Crown agency of the Province under the *Ontario Lottery and Gaming Corporation Act, 1999*, and has been provided loans totalling $33.8 million (2016 – $34.1 million) to fund several projects, bearing interest at rates ranging from 0.98 to 2.32 per cent and maturing from October 2017 to January 2018.

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. ONTC's total borrowing of $2.6 million (2016 – $2.9 million) matures from 2020 to 2031 and bears interest ranging from 4.90 to 5.22 per cent.

Ottawa Convention Centre Corporation (OCC) is a Crown agency of the Province governed under the *Ottawa Convention Centre Corporation Act, 1988*, and has been provided a loan of $48.0 million (2016 – $45.9 million) for the purpose of providing debt to finance part of the construction of the Ottawa Convention Centre. This is a 25-year loan, bears interest at 4.67 per cent and matures in September 2036. Pursuant to a directive signed by the Minister of Finance on November 2, 2012, the Province provided OCC with a repayment deferral of principal and interest up to five years. Interest continues to accrue over the five year deferral period. The outstanding amount includes capitalized interest of $8.0 million.

The Royal Ontario Museum (ROM) is a Crown agency of the Province under a Special Act of the Ontario Legislature and has borrowed $26.0 million (2016 – $30.1 million) bearing floating rate interest, currently set at 2.27 per cent. All outstanding loans are scheduled to be repaid by March 2027.

School boards have been provided loans under various programs beginning in 2006. During the year ended March 31, 2017, school boards were provided with additional loans and made semi-annual blended payments of principal and interest, leaving the total outstanding amount at $5,473.0 million (2016 – $5,611.9 million). These loans bear interest ranging from 2.43 to 5.38 per cent and mature from 2019 to 2042. The School Board loan program has been gradually replaced by a Ministry of Education capital grant facility model. Since April 1, 2017, this new funding model fully replaced the need for capital loans from the OFA. School Boards will however, continue to make interest and principal payments until all outstanding balances are paid off.

The University of Ontario Institute of Technology (UOIT) is a corporation established under the *University of Ontario Institute of Technology Act, 2002*. The Province has provided a five-year term loan of $5.5 million (2016 – $10.6 million) bearing an interest rate at 2.77 per cent and maturing in October 2017.

## 6. INVESTMENT AND DEBT MANAGEMENT FOR RELATED PARTY AGENCIES

a. The OFA provides investment management services to the following related party agencies. Fees are aimed at recovering OFA costs and are charged on the basis of either the market or par value of the assets under management based on a range of up to 0.20 per cent.

Deposit Insurance Corporation of Ontario
Northern Ontario Heritage Fund
Ontario Capital Growth Corporation
Pension Benefits Guarantee Fund
Ontario Immigrant Investor Corporation
Ontario Infrastructure and Lands Corporation
Ontario Trillium Foundation

Investments managed on behalf of these entities totalled $1,904 million at March 31, 2017 (2016 – $2,733 million).

b. The OFA provides debt management services to the following related party agencies on a cost recovery basis:

### Ontario Electricity Financial Corporation (OEFC)

The OFA provides financial services and advice on a cost recovery basis to OEFC and manages its debt portfolio of approximately $20.4 billion (2016 – $24.3 billion).

**Ontario Infrastructure and Lands Corporation (OILC)**
The OFA provides borrowing and other financial services and advice on a cost recovery basis to OILC and manages its debt of approximately $3.7 billion at March 31, 2017 (2016 – $4.4 billion) including loans from the Province, a provincial agency and third parties.

c. The total costs recovered and receivables outstanding for related party agencies at March 31, 2017 are set out below:

*(in thousands of dollars)*

| | March 31, 2017 | *March 31, 2016* |
|---|---|---|
| **Costs Recovered:** | | |
| OEFC | $ 3,765 | *$ 3,684* |
| OILC | 740 | *750* |
| Investment Management | 336 | *319* |
| **Total** | $ 4,841 | *$ 4,753* |
| **Receivables:** | | |
| OEFC | $ 1,070 | *$ 1,041* |
| OILC | 187 | *187* |
| Investment Management | 180 | *132* |
| Interest Rate Spread (Note 5) | 2,118 | *1,728* |
| **Total** | $ 3,555 | *$ 3,088* |

## 7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The main risks that the OFA's financial instruments are exposed to are credit risk, liquidity risk and market risk. These risks are limited to the financial instruments reflected on the statement of financial position and do not extend to the financing provided to various public bodies, disclosed in note 5 to the financial statements.

***Credit risk***

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment into which it has entered. This risk is minimal as most of the receivables are from the Province of Ontario.

The risk of not collecting the receivables related to OEFC, OILC and others is also considered to be minimal.

***Liquidity risk***

Liquidity risk is the risk that the OFA will not be able to meet its cash flow obligations as they fall due. The OFA's exposure to liquidity risk is minimal as all operating and capital expenses are cost recovered from the Province of Ontario.

***Market risk***

The market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the OFA. The OFA is not exposed to market risk.

## 8. FUTURE EMPLOYEE BENEFITS

***(a) Pension Benefits***

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan (PSPP), which is a multi-employer defined benefit pension plan established by the Province of Ontario. The Ministry of Government and Consumer Services (MGCS) is responsible for funding the employer's contribution to the Pension Fund and accordingly, the OFA has no additional liability for these future costs. In addition, the cost of post-retirement, non-pension benefits is paid by MGCS and is not reported in these financial statements.

***(b) Accrued Employee Benefits Obligation***

The legislated severance entitlement upon retirement for the Association of Management, Administrative and Professional Crown Employees of Ontario (AMAPCEO), excluded employees, management-excluded employees and other Management employees who retire after January 1, 2016, will be paid based on the salary in effect on December 31, 2015. The legislated severance entitlement upon retirement for the Ontario Public Service Employee Union (OPSEU), excluded employees who retire after January 1, 2016, will be paid based on the salary in effect on December 31, 2016.

For all other employees subject to terms set out in collective agreements who have completed five years of service, the OFA provides termination pay equal to one week's salary for each year of service up to a maximum of 50 percent of their annual salary.

The costs of this legislated severance entitlements earned by AMAPCEO and OPSEU, excluded employees, management excluded employees, management employees as at March 31, 2017 amounted to $3,918,000 (2016 – $4,076,000). In addition, the unused vacation entitlements earned by all employees as at March 31, 2017 amounted to $757,000 (2016 – $624,000).

On an ongoing basis, MGCS is responsible for funding the legislated severance entitlements, as well as unused vacation entitlements and accordingly no additional expense or liability is reported in these financial statements. Accrued employee benefits obligation is recorded at cost on the entitlements earned by employees up to March 31, 2017. A fair value estimate based on actuarial assumptions

about when these benefits will actually be paid has not been made, as it is not expected that there would be a significant difference from the recorded amount.

## 9. COMMITMENTS AND CONTINGENCIES

### Lease Commitment:

The OFA rents its premises under an operating lease which expires on June 30, 2017. The lease agreement has been extended for another 5 years and the minimum base rental payments for the lease are as follows:

*(in thousands of dollars)*

| | March 31, 2017 |
|---|---|
| 2018 | 876 |
| 2019 | 893 |
| 2020 | 952 |
| 2021 | 972 |
| 2022 | 972 |
| **Total** | **$4,665** |

OFA is committed to pay its proportionate share of realty taxes and operating expenses for the premises for the year ended March 31, 2017, which amounted to $999,900 (2016 – $1,133,000).

### Committed Credit Facilities:

At the direction of the Province, the OFA has committed to finance a number of public bodies for which funds have not yet been advanced. The details are as follows:

The Deposit Insurance Corporation of Ontario (DICO) was provided a maximum $400 million revolving credit facility to ensure DICO's capacity to address systematic difficulties in the credit union system or the failure of large institutions that require resources above those in the Deposit Insurance Reserve Fund (DIRF) which is currently valued at approximately $232.7 million. All principal and interest is required to be repaid by December 31, 2029. As of March 31, 2017, DICO had not utilized this credit facility.

The Ontario Infrastructure and Lands Corporation (OILC) is a Crown agency of the Province under the *Ontario Infrastructure and Lands Corporation Act, 2011* and has been provided a Revolving Credit Facility to a maximum amount of $200 million maturing in June 2019. As of March 31, 2017, OILC had not drawn any funds from this facility.

In the event fund are advanced under the above facilities they will be disclosed under Note 5 – Transactions with Public Bodies.

**Contingencies:**

At March 31, 2017, there were no claims under which the OFA would be financially liable. The Province continues to guarantee the term deposits issued by the Province of Ontario Savings Office prior to 2003.

# Corporate Governance

Corporate Governance

Financial Reporting Requirements

Board of Directors

## Corporate Governance

***Overview***

The OFA is an agent of the Crown characterized by a Management Board of Cabinet Directive as a board-governed provincial agency.

Corporate governance for the OFA involves processes that permit the effective supervision and management of the OFA's activities by senior management, the Board of Directors supported by its committees, and the Minister of Finance. It includes identifying individuals and groups responsible for the Corporation's activities and specifying their roles.

***Accountability and Responsibilities***

The OFA's accountability structure flows from its governing statute, the *Capital Investment Plan Act, 1993* ("CIPA"). The Minister of Finance is the minister responsible for the administration of CIPA with respect to the OFA. CIPA, together with policies and directives issued by Management Board of Cabinet, form a framework under which the OFA is governed.

Each year, the Minister of Finance is required to submit the OFA Annual Report to the Lieutenant Governor in Council and then table the report in the Legislature. In addition, the Minister reviews and approves the OFA's annual business plan. The Minister also maintains communications with the OFA, through its Chair, regarding government policies and issues relevant to the OFA.

The Chair is accountable to the Minister of Finance for the performance of the OFA in fulfilling its mandate. CIPA provides that the Deputy Minister of Finance is the Chair of the OFA. The Chair is responsible for providing advice and information to the Minister with regard to the operation and affairs of the OFA. In addition, the Chair provides leadership to the OFA. As Deputy Minister of Finance, the Chair ensures organizational capacity in the Ministry to monitor the OFA and ensures that it manages its risks appropriately.

The Board is appointed by the Lieutenant Governor in Council and is accountable to the Minister through the Chair. The OFA Board performs a supervisory role, overseeing the management of the business and affairs of the OFA to ensure the OFA's mandate is fulfilled. The Board is comprised of both public servants employed by the Crown and independent directors. The Board meets at least quarterly and receives regular reports from the CEO and OFA staff concerning the operations of the OFA and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board-approved Code of Conduct.

There are also three committees of the Board to assist it in supervising the management of the OFA. The Audit and Risk Management Committee reviews and recommends approval by the Board of an annual internal audit plan and receives reports from the OFA's internal auditors and the Auditor General of Ontario regarding internal controls and financial reporting. It also reviews financial policies and financial statements and recommends them to the Board. Another function of the Audit and Risk Management Committee is the review of the OFA's major risks and mitigation strategies. The Human Resources and Governance Committee assists the Board in ensuring appropriate measures are in place relating to compensation for staff

in critical areas and corporate governance. The OFA ONFA Investment Committee supervises the OFA's activities related to the investment of Ontario Power Generation's Used Fuel Segregated Fund and the Decommissioning Segregated Fund established under ONFA.

The CEO works under the direction of the Chair and the Board and reports the OFA's performance to the Board. The CEO is responsible for managing the day-to-day operations and ongoing activities of the OFA, including the supervision of staff, in accordance with government policies.

The OFA's employees are appointed pursuant to the *Public Service of Ontario Act, 2006*.

## Financial Reporting Requirements

The OFA prepares annual financial statements in accordance with Canadian public sector accounting standards. The financial statements are reviewed and recommended by the Audit and Risk Management Committee and approved by the Board. The annual financial statements are audited by the Auditor General who expresses an opinion on whether they present the financial results fairly in accordance with Canadian public sector accounting standards. The Office of the Auditor General also issues an audit report whose findings are reviewed by the Audit and Risk Management Committee and the Board. The audited financial statements are tabled in the Ontario Legislature as part of the Annual Report and are included in Volume 2 of the Public Accounts of the Province. Unaudited financial statements are prepared quarterly and presented to the Audit and Risk Management Committee and the Board.

### *Internal Controls*

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance regarding the reliability of financial reporting, to safeguard the OFA's assets and to manage its liabilities.

In meeting its responsibility for the reliability and timeliness of financial information, the OFA uses a comprehensive system of internal controls, including organizational and procedural controls. The system of internal controls includes:

- comprehensive business planning;
- written communication of policies and procedures governing corporate conduct and risk management;
- segregation of duties;
- maintenance and retention of detailed records;
- responsible delegation of authority and personal accountability;
- careful selection and training of personnel; and
- regularly updated accounting and financial risk policies.

As part of its annual business plan, the OFA conducts an assessment of corporate-wide risks and develops appropriate mitigation strategies.

The Ontario Internal Audit Division of the Treasury Board Secretariat develops an annual internal audit plan based on a review of the OFA's risk assessment and input from the OFA Audit and Risk Management Committee and Management. The internal audit plan is approved by the Board on the recommendation of the OFA Audit and Risk Management Committee. The Internal Audit Division reports to the OFA Audit and Risk Management Committee on the results of its audit work in the OFA.

## Board of Directors

The following individuals were members of the Board in 2016–17. Changes to Board membership status and Committee membership which arose during the fiscal year are noted below. Where an individual's status as a Board member changed after March 31, 2017 but before publication of this Annual Report, this has also been noted.

### Scott Thompson

Chair, OFA Board of Directors

Date of initial appointment to OFA Board of Directors: October 2014

Pursuant to Ss.5(3) of CIPA, the Deputy Minister of Finance is, by virtue of office, the Chair of the OFA. Deputy Minister of Finance Scott Thompson was appointed to the position of Deputy Minister in the Ministry of Finance in October 2014. In his previous position as Deputy Minister, Policy and Delivery in the Ontario Cabinet Office, his primary role was to work with all Ministries in the Ontario Public Service and the Premier's Office to establish and manage the government's policy and legislative agenda.

Prior to Scott's appointment to Cabinet Office, he was the Executive Lead for the Secretariat responsible for the Commission on the Reform of Ontario's Public Services (CROPS), otherwise known as the "Drummond Commission," at the Ministry of Finance.

Throughout his 29 year tenure with the Ontario Public Service, Scott has served in various senior management positions in the Ministries of Transportation, Municipal Affairs, Finance, and Northern Development and Mines, as well as several roles in Cabinet Office.

Scott has previously served as: Assistant Deputy Minister, Provincial Highways Management, Ministry of Transportation; Assistant Deputy Minister, Policy and Planning, Ministry of Transportation; Assistant Deputy Minister, Economic, Environment, Justice and Intergovernmental Policy, Cabinet Office.

Scott began his public service career in 1985 after completing a Bachelor of Environmental Studies degree in urban planning at the University of Waterloo and graduate work in transportation planning at the University of Illinois.

In 2012, Scott was a recipient of the Silver medal in the Federal/Provincial/Territorial/Aboriginal category of the IPAC/Deloitte Public Sector Leadership Award for his work with the Secretariat responsible for CROPS.

## Constance L. Sugiyama, C.M., J.D., LL.D

Vice-Chair, OFA Board of Directors
Committee: Audit and Risk Management Committee, Member

Date of Initial Appointment to OFA Board of Directors: November 2014
End of Current Term: November 2017

Constance L. Sugiyama, C.M., JD, LL.D, is a corporate director and strategy advisor. Prior to retiring from practice, she was the Deputy Chair of a national law firm and a leading corporate, capital markets and mergers and acquisitions lawyer. She is a past-Chair of the Hospital for Sick Children. Her community involvement includes, among others, serving as an advisor to the Japanese Canadian Cultural Centre, Women in Capital Markets, and the 30 per cent Club Canada. Dr. Sugiyama has been a Board member of the Ontario Financing Authority since 2014 and it's Vice Chair since 2016.

## Gadi Mayman

Chief Executive Officer, OFA

Date of initial appointment to OFA Board of Directors: August 2000
End of Current Term: July 2020

As CEO of the OFA, Gadi is responsible for the Province's borrowing and debt management strategy, and its banking and capital markets relationships. He is also CEO and Vice-Chair of OEFC.

Prior to joining the Ontario Ministry of Finance, Gadi worked at the Export Development Corporation in Ottawa and in the International Division of the TD Bank. He received a Bachelor of Applied Science in Industrial Engineering from the University of Toronto in 1981, and a Master of Business Administration from the University of Western Ontario in 1988.

Gadi is on the boards of Infrastructure Ontario and the Ontario Capital Growth Corporation, and is Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and OPG Committee.

## John M. Beck

Committee: Audit and Risk Management Committee, Member

Date of initial appointment to OFA Board of Directors: January 2011
End of Current Term: January 2020

John M. Beck is founder and Executive Chairman of Aecon Group Inc. (TSX: ARE), Canada's premier construction and infrastructure development company. A leader in providing services to private and public sector clients throughout Canada and internationally, Aecon primarily serves the Infrastructure, Energy and Mining sectors.

A graduate in Civil Engineering from McGill University, Mr. Beck has more than 50 years of experience in the construction industry in Canada and internationally. His background includes corporate leadership in numerous construction activities including heavy civil projects and public-private partnerships for the development of infrastructure, such as airports, toll roads and transit systems.

Mr. Beck is currently a member of the Board of Directors of PPP Canada, the Ontario Financing Authority, the Royal Conservatory of Music as well as Co-Chair of the Infrastructure & Urban Development Industries at the World Economic Forum. He is a member of the Advisory Council for the School of Public Policy at the University of Calgary and is also a member of the Business Council of Canada. He was previously Chairman of the Board of the Ontario Power Authority, a government agency with responsibility for planning and procuring all of the province's power needs for the next 20 years. He was named P3 Champion of the Year by the Canadian Council of Public Private Partnerships in 2013. In recognition of his distinguished achievements and career-long service to the engineering profession, Mr. Beck was inducted as a Fellow into the Canadian Academy of Engineering.

## Lorraine Bell, CPA, CA

Committees: Audit and Risk Management Committee, Member
Human Resources and Governance Committee Member

Date of initial appointment to OFA Board of Directors: October 2005
End of Current Term: December 2017

In addition to her OFA board appointment, Lorraine is also a Director and Chair of the Audit Committee, and member of the Governance Committee for Brookfield Real Estate Services Fund. She is also a Director and Chair of the Audit Committee of IBI Group. She is also the Co-founder and President of a mobile application called Kwikly. Lorraine has many years of experience in capital markets and in particular, derivatives. She was a Vice President and Director with General Re Financial Products Canada (GRFP), a derivatives organization. Prior to joining GRFP, she worked as a financial consultant, and was at a number of corporations including Prudential Global Funding and Citibank Canada. Before Citibank Canada, Lorraine was with Touche Ross and Co (now Deloitte and Touche) as a member of the audit group and she obtained her CA designation at that time.

She is an active volunteer and past Board member of a number of charitable organizations in Ontario and in New York. Lorraine is also a Director of the Associates of the University of Toronto, Inc.

## Angela Holtham, FCPA, FCMA, ICD.D

Committees: Audit and Risk Management Committee, Chair
ONFA Investment Committee, Member

Date of initial appointment to OFA Board of Directors: February 2011
End of Current Term: February 2020

Angela retired after eight years as the Vice President, Finance, and CFO of The Hospital for Sick Children in Toronto. Prior to that, she held a number of positions in both the for-profit and not-for-profit sectors, including 20 years with Nabisco Canada, the last five of which she spent as Senior Vice President and CFO.

Angela holds a Master of Business Administration Degree from the University of Toronto, and a Bachelor of Mathematics Degree from the University of Waterloo. She is an FCPA, FCMA and holds the ICD.D directors designation.

Angela has held a number of Board positions including chair of the Board of CMA Ontario, and Board Director of Sprinkles Global Health Initiative.

She currently serves on the Boards of two Canadian publicly held companies, Oncolytics Biotech Inc. and IBI Group Inc.

## Heather-Anne Irwin

Date of initial appointment to OFA Board of Directors: October 2016
End of Current Term: October 2019

Heather-Anne is an Adjunct Professor of Finance at the Rotman School of Management since 2003. She is also the Executive Director of the Canadian Securities Institute Research Foundation. Prior to this, Heather-Anne spent 19 years in capital markets at TD Securities, Nesbitt Burns, and Citibank where she occupied various senior roles in corporate finance, fixed income and structured products.

Currently Heather-Anne is a board member of the public company InnVest REIT, and Chair of its Corporate Governance and Compensation Committees. She also sits on several private boards. She is the Founding President of Women in Capital Markets.

Heather-Anne's not-for-profit board work includes, Up With Women where she is the Chair, and Bay St. Deconstructed. She was a member of the board of the Centre for Addiction and Mental Health (CAMH) Foundation from 2002–2008.

Heather-Anne has a degree in Engineering Chemistry from Queen's University and an MBA from the Schulich School of School of Business, at York.

## Peter Kay

Committees: Human Resources and Governance Committee, Vice-Chair
ONFA Investment Committee, Chair

Date of Initial Appointment to OFA Board of Directors: May 2013
End of Current Term: May 2019

Peter Kay is a retired financial services executive. His career spanned 32 years with Canadian Imperial Bank of Commerce including 15 years as senior vice president and as deputy chair of the CIBC Pension Fund Committee.

Peter's experience in the financial sector covers a wide variety of areas including large-scale and structured lending, Eurobond finance, and merchant banking. Treasury-related areas include corporate and international finance, long term debt financing in the domestic Canadian, US and Euro-bond markets, and capital management and pension fund management.

Peter is a Trustee of the Upper Canada College Foundation, a charitable foundation, where he is also chair of the Governance & Nominating Committee.

Peter was awarded a BSc in Engineering from the University of Toronto, an MSc in Management Science from Imperial College, University of London, England, and an LLM in Securities Law from Osgoode Hall, York University.

## Marie MacDougall

Committee: Audit and Risk Management Committee, Member
(As of September 2016)

Date of Initial Appointment to OFA Board of Directors: March 2016
End of Current Term: March 2019

Before her appointment to the OFA Board of Directors, Marie MacDougall was Vice President and Treasurer at Export Development Canada (EDC) for thirty- one years. During her tenure at EDC, Marie occupied various financial, investment, and accounting roles before she was promoted to Vice President and Treasurer in February of 2000. As head of EDC's Treasury group, her team provided financial and technical support to the lending and insurance operations of the corporation. Marie's team of capital market experts developed and executed financial strategies and transactions for the corporation's long-term debt issues, short-term borrowings, investments and foreign exchange transactions, all derivative and pricing activities, and investor relations. In addition, Marie attended the EDC's Board of Directors meetings to provide support to the Chair of the Audit Committee and address any questions regarding EDC's Treasury operations.

## Diane McArthur

Committees: Audit and Risk Management Committee, Member
Human Resources and Governance Committee, Member
(As of September 2016)

Date of initial appointment to OFA Board of Directors: June 2016
End of Current Term: June 2019

Diane McArthur was appointed the first Chief Talent Officer of Ontario Public Service in January 2016. Prior to this, she was the Executive Lead for the Secretariat supporting the Premier's Advisory Council on Government Assets. The Secretariat worked with ministries to successfully implement one of the largest IPO's in Ontario's history and most significant reform of beverage alcohol retailing since prohibition.

Previous executive roles include Assistant Deputy Minister and Executive Officer of Ontario Public Drug Programs (OPDP), where she oversaw the administration of the second largest drug insurance program in North America; Assistant Deputy Minister of the Ontario Seniors' Secretariat; Executive Coordinator of Health and Social Policy in Cabinet Office.

Diane has gained extensive experience in health human resource policy and planning for health care provider training, education, supply and distribution initiatives, data and health information planning and analysis, health care provider negotiations, rural health policy, labour relations, and service delivery restructuring. Previous Board experience includes Ontario Electricity Financial Corporation (Audit Committee member), Canadian Agency for Drugs and Technology in Health (Chair, Audit and Finance Committee), and the Michener Institute of Canada.

Diane has a Bachelor of Public Relations from Mount Saint Vincent University in Halifax and a Master of Business Administration from the University of Ottawa.

## Catherine McCall, ICD.D

Committees: Human Resources and Governance Committee, Chair
Audit and Risk Management Committee, Member
(As of April 2016)

Date of Initial Appointment to OFA Board of Directors: November 2014
End of Current Term: November 2017

Catherine McCall is a lawyer by training and is currently the Director of Policy Development at the Canadian Coalition for Good Governance, an organization comprised of representatives of Canada's leading institutional investors. She has over 20 years of experience advising boards and institutional shareholders on a wide range of corporate governance issues.

Previously, she was a Principal at Hugessen Consulting, a Vice-President and Director of ISS Canada and a Partner with Fairvest Corporation. She began her career practicing law with Davies, Ward & Beck in Toronto.

Catherine has a BA (Honours) in Philosophy from University of Toronto and a JD from Osgoode Hall Law School.

Catherine is past Chair of the Board of ADDUS, a non-profit organization that works with adults with developmental disabilities. She was previously a Director of the Foundation Board of OCAD University and Chair of the Governance Committee. She is a member of the Ontario Securities Commission's Continuous Disclosure Advisory Committee. Catherine received the ICD.D designation in March 2017.

## Paul Potvin

Date of initial appointment to OFA Board of Directors: February 2017
End of Current Term: February 2020

Paul Potvin is a former derivatives trader and structurer with 26 years of experience in Canadian and international fixed income, equities and credit. Paul has held senior positions with Canadian and international banks, including National Bank of Canada, CIBC, and ABN AMRO / Royal Bank of Scotland. Paul also served as a consultant to the Caisse de depot et placement du Quebec in an initiative to reduce the credit risk it assumed following the Montreal Accord restructuring of the Canadian asset-backed commercial paper market. Before working in the financial services industry, Paul was an assistant professor of finance at the University of Toronto.

Paul holds a PhD in Business Economics from Harvard University, and an Honours Bachelor of Arts from the University of Toronto.

## Vincenza Sera, ICD.D

Committees: ONFA Investment Committee, Vice-Chair

Date of initial appointment to OFA Board of Directors: February 2011
End of Current Term: February 2020

Ms. Vincenza Sera is an experienced corporate director who served on the board of the Ontario Pension Board (OPB) for 12 years, nine as Chair of the Board and Chair of OPB's Investment Committee (2007-2016). She is currently Chair of the Board of Dream Industrial REIT and a member of the boards of Investment Management Corporation of Ontario, Equitable Bank, Dream Unlimited Corp and the Ontario Financing Authority. She is also involved with the Finance Committee of Hot Docs.

A former investment banker with more than 25 years expertise in debt and equity markets, corporate finance, mergers and acquisitions and corporate governance, Ms. Sera's career has included senior positions with National Bank Financial, First Marathon Securities and CIBC. She holds an MBA from the University of Toronto.

## Robert S. Bell, MDCM, MSc, FRCSC, FACS

Date of initial appointment to OFA Board of Directors: July 2014
Resigned: May 2016

## Mario Ferrara

Vice-Chair, OFA Board of Directors
Committees: Audit and Risk Management Committee, Member
Human Resources and Governance Committee, Member

Date of initial appointment to OFA Board of Directors: April 2005
Resigned: November 2016

## Richard J. Kostoff

Committee: Human Resources and Governance Committee, Chair

Date of initial appointment to OFA Board of Directors: June 2007
Term Expired: June 2016

**Total Annual Remuneration paid to the Board of Directors: $61,625.**

## Risk Management Policies and Procedures

OFA risk management policies and procedures provide for the management of risk exposures created by capital markets activities. Current policies and procedures address market, credit and operational risk exposures as they pertain to the Province's debt and derivatives portfolios and capital markets transactions.

The policies were developed following the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada, the Bank for International Settlements and in consultation with Canadian bank representatives on their risk management practices.

The Board approves risk management policies and monitors the performance of capital markets activities.

***Market Risk Policy***

Market risk is the risk of financial loss attributed to changes in interest rates and foreign exchange rates. This policy provides a framework for borrowing activities and integrates several aspects dealing with the management of market risk. The policy includes several limits:

- Foreign Exchange Limit: unhedged foreign currency exposure is limited to 5 per cent of debt issued for provincial purposes. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc.

- Net Interest Rate Resetting Limit: the interest rate resetting risk exposure is the sum of maturities and floating-rate debt (net of liquid reserves) over the next 12 months, and is limited to a maximum of 35 per cent of debt issued for provincial purposes.

- IOD Loss Limit: the total amount of financial losses resulting from market risk cannot exceed 3 per cent of budgeted IOD for a fiscal year. In addition, the CEO establishes a trigger level to ensure losses from market activities will not reach the debt cost loss limit.

The OFA identifies and quantifies current and potential exposures to market risk and ensures risk exposures and losses remain within approved exposure and loss limits. Exposure to market risk is measured and reported daily.

***Credit Risk Policy***

Credit risk is the risk of loss in which a counterparty does not meet or defaults on its obligations. Credit risk arises when the Province undertakes financial and derivative transactions. The minimum credit rating of a new swap counterparty is typically "AA–", and "R1-mid" (and "A-1" or "P-1") for money market investments. The resulting exposure is capped at mark-to-market limits depending on the counterparty's credit rating and capital base. Concentration limits are also in place to limit exposure. Credit exposure is measured and reported daily. The Province enters into collateral agreements, including Credit Support Annexes, with certain counterparties to reduce credit exposure.

***Policy on the Use of Derivatives and Other Financial Instruments***

Use of derivatives and other financial instruments is restricted to those which the OFA can price and whose risk exposures can be measured by the OFA. Derivatives are used to manage exposures arising from existing and planned debt issues in a sound and cost-effective manner. Risks arising from the use of derivatives are monitored and managed prudently.

***Risk Management Reporting Policy***

At its regular quarterly meetings, the Board is kept informed of the OFA's activities:

- The CEO provides the Board with a progress report on the implementation of the Province's borrowing and debt management programs for the year, staffing and other administrative and operational matters. The CEO also reports on the OFA's compliance with applicable government directives.

- The Chief Financial and Risk Officer reports on program exposures and performance as well as exceptions to policies.

- Management is kept informed of risk exposures and positions related to the Province's borrowing and debt management programs on a daily basis.

***Operational Risk***

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or external events. Each division manages operational risk through reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans and staff training.

The OFA maintains a Business Continuity Plan (which covers OEFC's operations) that is regularly updated to facilitate the continuation of essential operational functions with a minimum of disruption in the event of an emergency.

# Appendices

Ontario's Credit Ratings

Additional Sources of Information

# Appendices

## Ontario's Credit Ratings

A credit rating is a current assessment of the creditworthiness of a borrower with respect to a specified obligation. It indicates the capacity and willingness of a borrower to pay interest and principal in a timely manner.

### Long-Term Ratings

Long-term ratings are assigned a letter grade ranging from investment grade, to speculative grade, to highly speculative or default. Ratings within each category may include a "+" or "–" (or a high or low) to indicate the relative strength of rating within that category. As of March 31, 2017, the long-term ratings of the Province are as follows:

- Moody's Investors Service — Aa2
- Standard & Poor's — A+
- DBRS — AA (low)
- Fitch — AA–

### Short-Term Ratings

Short-term ratings are for debt maturities of less than one year. Ratings are graded into several categories, ranging from the highest-quality obligations to default. As of June 16, 2017, the short-term ratings of the Province are as follows:

- Moody's Investors Service — P-1
- Standard & Poor's — A-1
- DBRS — R-1 (mid)
- Fitch — F1+

## Additional Sources of Information

**www.ofina.on.ca**

The website provides information on Ontario's borrowing program and debt, and contains publications from the OFA.

**Ontario Budget**

The Borrowing and Debt Management chapter discusses the Province's borrowing and debt management activities for the fiscal year ended, and outlines the outlook for the upcoming fiscal year.

**Quarterly Finances – OFA Fact Sheet**

The OFA Fact Sheet provides quarterly updates of the government's annual budget forecast. The full set of quarterly finances information is also available on the Ministry of Finance website, www.fin.gov.on.ca.

**Form 18-k**

This is the Province's annual report to the U.S. Securities and Exchange Commission (SEC).

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ONTARIO FINANCING AUTHORITY

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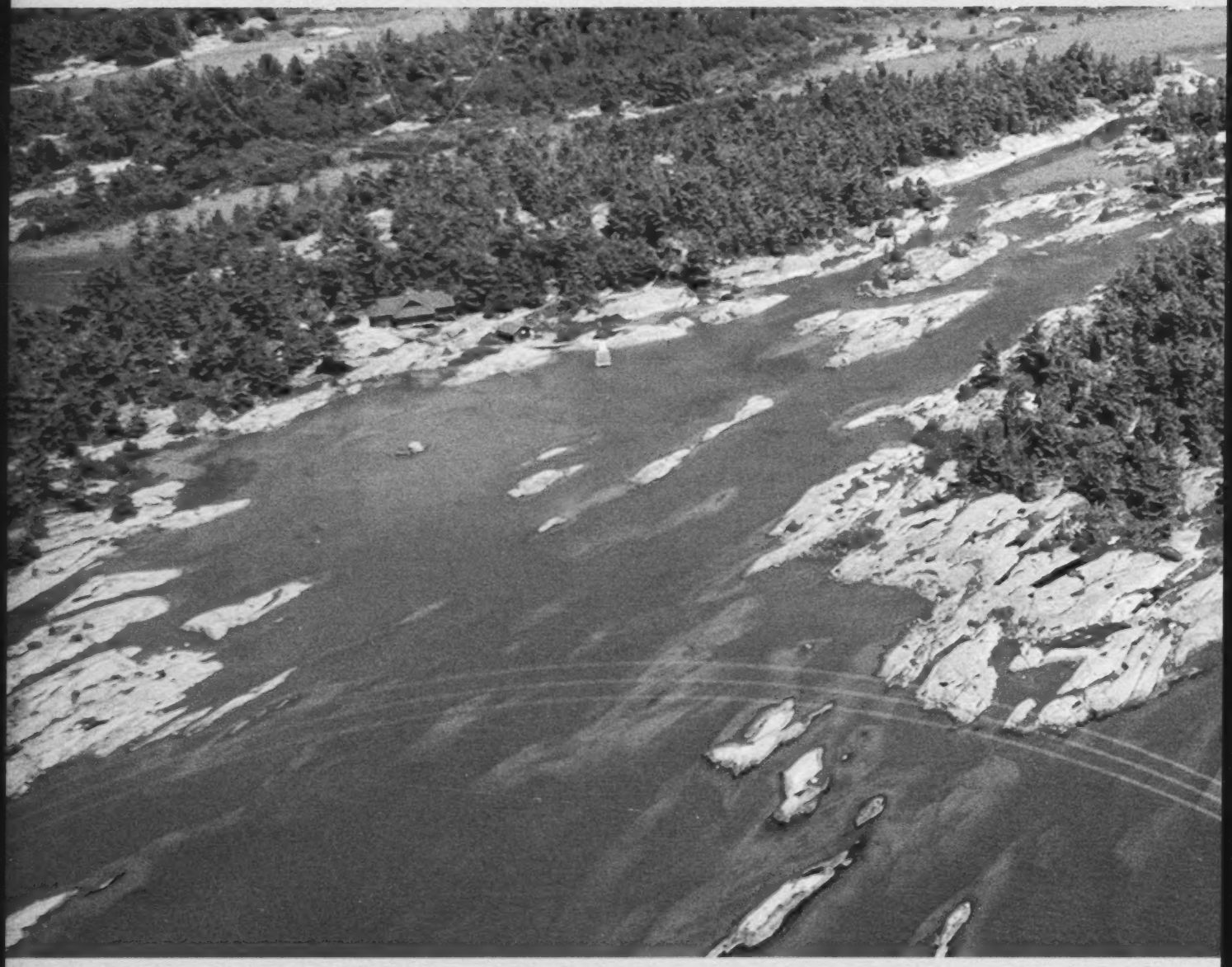

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© Queen's Printer for Ontario
ISSN 1492-854X

This Annual Report is also available in French